



# SANTA BARBARA COUNTY

## MARKET OVERVIEW

a monthly real estate report | July 2010

### Housing Prices Increase on Pent-up Demand

We are seeing price increases in most Southern California markets for the sixth consecutive month in a row, indicating buyers no longer have a pricing advantage over sellers.

“Optimism that a sustainable economic recovery is underway is driving increases in home prices across many US metro areas,” said Fiserv chief economist David Stiff in a prepared statement. “More and more, consumers have confidence that buying a home doesn’t mean catching a falling knife. Price declines during the recession period have made housing much more affordable, drawing in first-time homebuyers, investors and now luxury buyers with cash.”

Of the markets recorded, California’s showed the greatest improvement in affordability. Prices are up in eight out of 28 metros, year over year, and they’re rising off recent lows in 24 metro areas.

“The strongest rebounds were in coastal markets, including Los Angeles, Orange County and San Diego where levels of foreclosed homes are decreasing,” notes Reecon Advisors editor, Steve Cook. “Inland markets have also experienced a price bounce, mainly due to strong investor demand.”

Altos Research’s 10-City Composite Price Index saw housing prices increase through May, but they’re still 6.1% below the peak set in July 2009. The price increase was a nominal 0.2% in median sales prices, but the significant factor is that these increases occurred after the expiration of the federal tax credit and included some of the most expensive markets in the U.S. This is the first month-over-month increase in nine months, Altos says.

#### Prices and affordability work hand in hand

The State of the Nation’s Housing, an annual report by The Joint Center for Housing Studies

at Harvard University, found that affordability is helping to refuel the housing recovery.

“Nationwide, the median sales price dropped from 4.7 times the median household income in 2005 to 3.4 times in 2009. When combined with low interest rates, this puts mortgage payments on the median priced home closer to median gross rents than at anytime since 1980.”

#### Price cuts ease

With state tax incentives beginning May 1, 2010, for first-time buyers and buyers of new homes, California sales are continuing at a feverish pace, while the rest of the nation takes a breather.

On an annual basis, price cutting on active listings for sale has declined. Trulia.com recently announced that 22% of listings on the market as of June 1, 2010, experienced at least one price reduction, down from 23.6%. The average price reduction was 10%.

#### The role of luxury housing

Through March 2010, prices for lower-priced homes fell at a rate 50% greater than prices of homes at the higher end of the market, according to the most recent S&P/Case-Shiller index.

California luxury real estate markets are making a comeback, driven by growing buyer confidence, improved financing conditions and realistic seller pricing. Across the nation, homes priced \$2 million to \$5 million rose 32% in Q1 2010 according to Corelogic. They’re now at the same level as they were in 2005, before the housing market declined.

The improvement isn’t bulletproof, but as long as the economy keeps adding jobs, some economists believe there may actually be a housing shortage in the future.

According to the Joint Center for Housing Studies, household formation has been delayed by the economy. Once the job situation improves, echo boomers who are still living at home with their parents will create more demand for homes. This will bring household growth back to where it was before the housing recession.

**Advice for buyers:** Housing prices have already recovered significantly since their peaks. Consult with your financial advisors and engage a Prudential California Realty real estate professional to assist you in finding a home that meets your needs. Affordable home prices combined with historically low interest rates creates a compelling reason to consider buying now.

**Advice for sellers:** In April and May 2010, some sellers slashed prices in order to encourage buyers to take advantage of the federal tax credits. Now is the time to revisit your pricing strategy. Consult with your financial advisors and engage a Prudential California Realty real estate professional to help you determine the best pricing strategies for today’s market conditions. In many price ranges, there is more buyer demand than homes for sale, indicating a quick sale is possible. Consider that upgrade you’ve always dreamed about.

In the higher end, your home is competing with many others that may be newer and in better condition than yours. Rather than reducing your price, you may be better off bringing your home up to date to compete, then pricing it to sell.

**Breaking news:** Congress has passed a bill extending the Homebuyer Tax Credit closing deadline to September 30, 2010. The extension applies only to transactions that had ratified contracts in place as of April 30, 2010, and have not yet closed. There will be no gap between

June 30 and the date the President signs the bill into law. Additionally, Congress has extended the National Flood Insurance Program (NFIP) through September 30th. The bill is retroactive and will cover the lapse period from June 1, 2010, to the date the law is enacted.

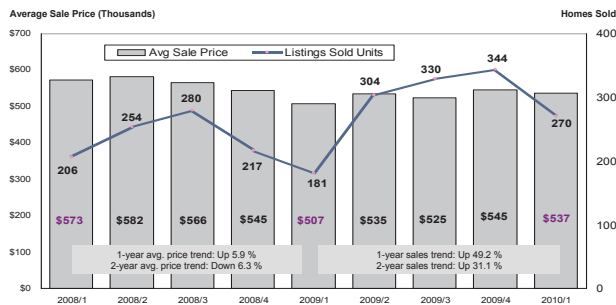
## SANTA BARBARA COUNTY

Homes priced under \$1 million are squarely in a balanced market, but the situation changes when prices fall between \$3 million and \$5 million. While unique and upscale homes aren't expected to sell at the same pace as affordable homes, when inventories rise above two-year supply, the market is stagnant.

*\*A balanced market is widely accepted as having six months of inventory on hand with market conditions favorable to both buyers and sellers. A buyer's market is characterized by conditions such as high inventories, falling prices, concessions by sellers, and incentives among other indicators. A seller's market has low inventories of homes for sale, escalating prices, and keen competition between buyers, including multiple offers.*

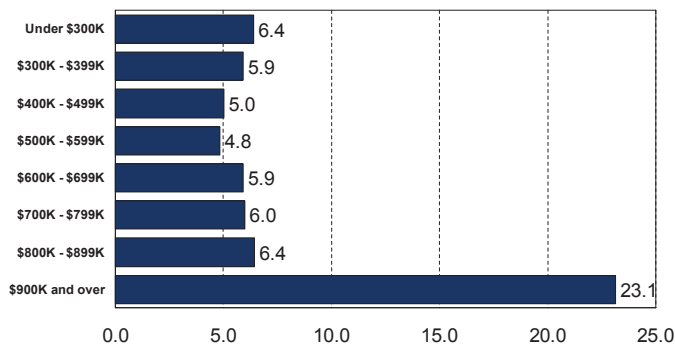
*Detached homes stand alone and share no common walls with any other neighboring home. Attached homes share at least one common wall with another home. The type of home ownership is determined by whether it is a condominium, townhome, duplex, co-operative or other.*

### All Properties - Listings Sold by Calendar Quarter 9 Quarters through March 31, 2010



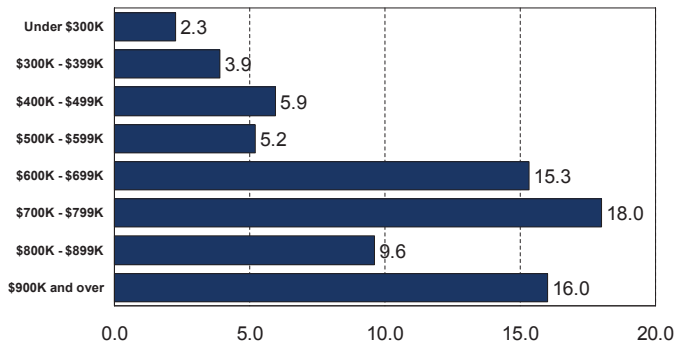
In homes priced under \$1 million, prices rose 5.9% between Q1 2009 and Q1 2010, while sales volume shot up 49.2%.

### Detached Properties - Inventory in Months



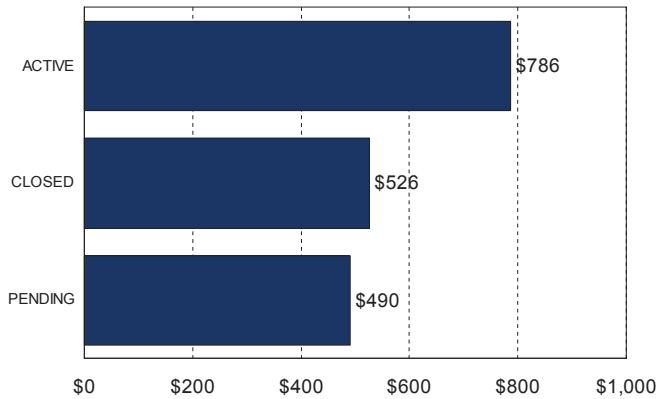
Detached home sales are healthy and balanced under \$899K. Only when prices are higher do inventories start to build.

### Attached Properties - Inventory in Months



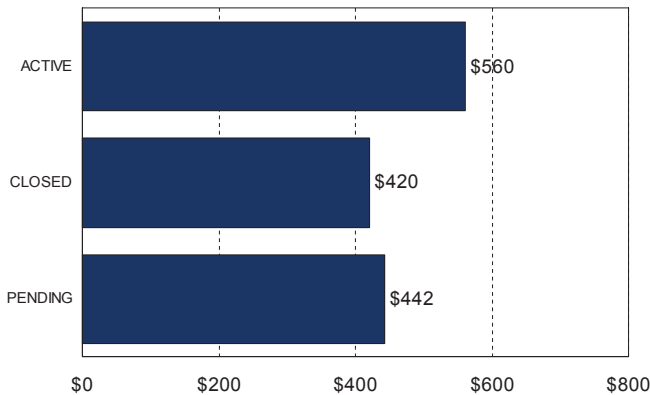
Attached homes are in a healthy balanced market under \$599K, but high inventories favor the buyer's side of negotiations in the higher price ranges.

### Detached Properties - Pricing Reality for Sellers, per square foot



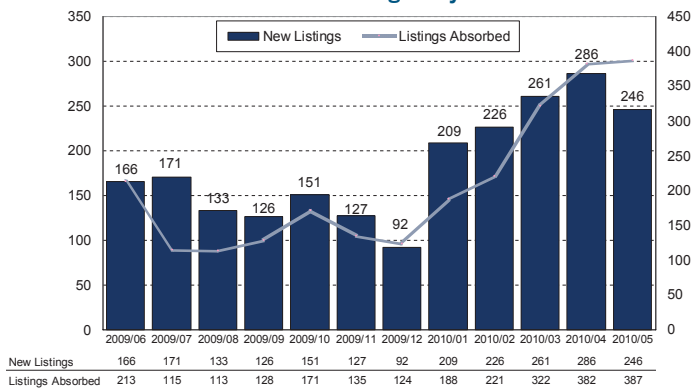
The gap between detached homes' active price per square foot and that of closed sales underscores the seller's market in the affordable price ranges.

### Attached Properties - Pricing Reality for Sellers, per square foot



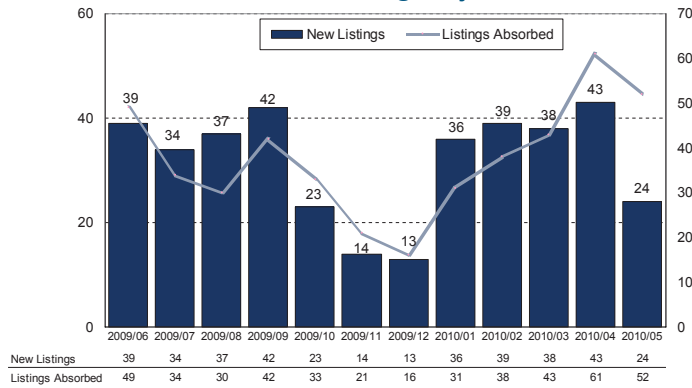
Attached home price per square foot also outpaces that of closed sales, illustrating more volume at the affordable levels.

### Detached Properties - Monthly Listings Taken and Absorbed 12 Months through May 2010



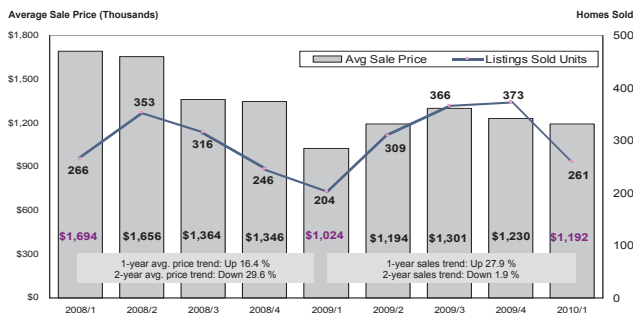
New listings introduced to the market eased in May, while absorption rates rose modestly, causing inventory levels to pull back nicely.

### Attached Properties - Monthly Listings Taken and Absorbed 12 Months through May 2010



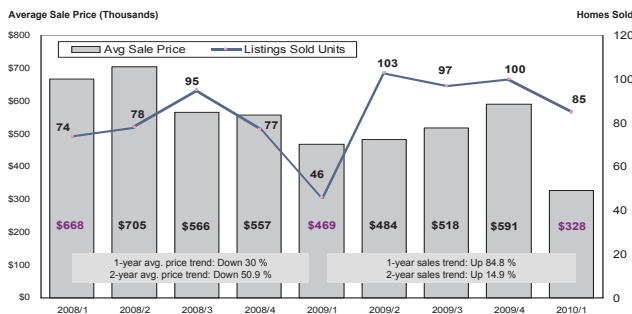
New attached home listings peaked in April 2010, and dropped off in May. Sales volume also eased.

### Detached Properties - Listings Sold by Calendar Quarter 9 Quarters through March 31, 2010



Between Q1 2009 and Q1 2010, Santa Barbara detached home prices rose 16.4% and sales volume was up 27.9%.

### Attached Properties - Listings Sold by Calendar Quarter 9 Quarters through March 31, 2010



With attached home prices down 50.9% in the last two years, sales volume improved 84.8% between Q1 2009 and Q1 2010.



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